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Cover: "We have our roots in Québec. We have grown and prospered here, and we intend to stay. But we should like to be able to make some contribution to the formulation of the policies which will enable us to do so."

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec:

Le Secrétaire
Imasco Limitée
4, square Westmount
Montréal, Canada
H3Z 2S8

Imasco Limited Directors and Officers

Imasco Limited operates through two divisions. Imperial Tobacco Limited, Canada's largest tobacco company, manufactures and distributes a complete range of tobacco products. Imasco Associated Products Limited operates food processing companies, and retailing outlets specializing in prescription drugs, health and beauty aids, tobacco products and gifts, and sporting goods.

Directors
Paul Paré^{1,3}
John H. Coleman^{2,3}
Purdy Crawford, Q.C.^{1,2}
Peter Kilburn^{1,3}
Murray B. Koffler, C.M.
L. Edmond Ricard¹
Jean H. Richer²
George G. Ross, C.A.¹
John J. Ruffo
Robert T. Ruggles

Officers
Paul Paré, President
L. Edmond Ricard, Executive Vice-President
Roger S. Ackman, Vice-President and General Counsel
Norman A. Dann, Vice-President
✈ Roderick C. Foster, C.A., Vice-President and Corporate Comptroller
✈ Matthews Glezos, Vice-President and Treasurer
Bernard W. Matte, Vice-President
George G. Ross, C.A., Vice-President
John J. Ruffo, Vice-President
Robert T. Ruggles, Vice-President
Paul K. Ryan, Secretary
John N. Economides, Assistant Treasurer
Wendy V. Agnew, Assistant Secretary
Ronald M. Statham, C.G.A., Assistant Comptroller

¹ Member of the Executive Committee

² Member of the Audit Committee

³ Member of the Salary Committee

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Montréal, Canada H3Z 2S8
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Financial Results at a Glance

	1979	1978
	Thousands of dollars	
System-wide sales	1,586,748	1,070,687
Revenues	1,161,526	1,049,421
Earnings before extraordinary items	56,407	43,078
Net earnings after extraordinary items	57,721	40,734
Earned per common share before extraordinary items (fully diluted)	\$5.40	\$4.42
Earned per common share after extraordinary items (fully diluted)	\$5.53	\$4.18
Dividends per common share	\$1.64	\$1.44
Working capital	193,887	217,354
Total assets	607,077	476,214
Shareholders' equity	297,974	232,876



Consolidated earnings for the year ended March 31, 1979 were \$56,407,000, an increase of \$13,329,000 or 31% over last year. Fully diluted earnings per share were \$5.40 compared with \$4.42 in the previous year, an increase of 22%.

An extraordinary gain of \$1,314,000, or 13 cents per share, arose from the sale of Progresso Foods minus a write-down of our investment in Pop Shoppes of America, Inc.

Last year an extraordinary loss of \$2,344,000, incurred upon the sale of our west coast food operations in the United States, reduced earnings by 24 cents a share.

Net earnings for fiscal 1979 were \$57,721,000, or \$5.53 per share fully diluted, compared with \$40,734,000 or \$4.18 per share last year.

Imperial Tobacco continued to outpace the industry in sales during the year and has again increased its share of the cigarette market. Imperial Tobacco's established brands have retained their popularity and gained new customers. Extensions of these famous trade marks into the "light" category and the introduction of new brands have given Imperial pre-eminence in this growing segment of the market.

Imperial Tobacco announced a cigarette price increase in February 1979 in order to recover margins eroded by inflationary costs. The company maintains its policy of many years' standing of raising prices only to recover increased costs of manufacture and distribution, relying on higher sales volume and gains in productivity for any increase in profitability.

Food operations continued to progress in sales, and earnings are substantially ahead of last year. Particularly worth noting is the success of the Taillefer division of Grissol Foods in the processing and distribution of specialty meat products.

In February the Corporation announced the sale of Progresso Foods, New Jersey, to Ogden Corporation, New York, for \$40,301,000. Since its acquisition in 1969 Progresso had achieved notable success in the U.S. market with its first quality Italian food specialties. However, it was decided that its future growth depended on extension of its products well beyond its main market in the Northeastern U.S. This would have required high expenditures for marketing and distribution which we did not believe we could responsibly undertake.

We retain our interest and confidence in food operations and we have an expanding position in the Canadian market.

Results of retail operations were well ahead of last year in most areas of business. Shoppers Drug Mart was acquired and the first phase of a two-year programme to integrate the Shoppers Drug Mart and Top Drug Mart organizations has been successfully completed. Sales in Top Drug Mart stores that have been converted to Shoppers Drug Mart outlets have shown substantial increases.

Dividends

The quarterly dividend on the common shares was increased in November 1978 to 45 cents a share, bringing total dividends for the year to \$1.64 a share. In May 1979, the quarterly dividend on the common shares was increased to 50 cents, bringing dividends to \$2.00 on an annual basis.

Investments

In December 1978, the Corporation acquired an additional 681,818 common shares of Hardee's Food Systems, Inc. at a cost of \$15,000,000 U.S. Imasco's interest in Hardee's now amounts to 39%.

We continue to have confidence in the future of Hardee's as a major company in the rapidly growing fast food restaurant business in the United States.

The Corporation has elected to convert its investment in, and advances to, PoP Shoppes of America, Inc. into preference shares of the parent company, PoP Shoppes International Inc. The preference shares, representing an aggregate par value of \$11,950,000 U.S., will be redeemable in equal annual instalments from 1982 to 1989, with an annual dividend of 5% during those years. The conversion to these preference shares ends our participation in PoP Shoppes of America, Inc. and was undertaken to permit PoP Shoppes International Inc., the parent company, to take direct operating control over the U.S. operation.

It is our belief that undivided ownership is necessary for the U.S. operation to achieve its potential and that an investment in the parent company affords greater security to the Corporation.

Corporate Donations

One manner in which a corporation may express recognition of its corporate responsibilities is through the support of worthy causes. During the past year, Imasco Limited, through its group of companies, donated over \$840,000 to non-profit organizations engaged in welfare, educational, cultural, recreational and community development activities across Canada.

These donations do not include sponsorships associated with product promotions, such as the Peter Jackson Canadian Open Golf Tournament, nor grants made by the du Maurier Council for the Performing Arts.

Contributions to Political Parties

We believe that political parties are a vital part of the democratic system of government and that they deserve our support. Accordingly, during the year we contributed \$31,600 to federal and provincial political parties which support the principle of a strong private sector and the unity of Canada.

Outlook

Inflation remains a major problem for the country and for most of the world. There are no signs that the upward pressure on costs of materials will abate in the coming year. Nevertheless, we are committed to exerting as much influence as we can against cost increases and every effort is being made to counter them with greater efficiency.

We expect the record of our achievements in fiscal 1979 will set the pace for an even more successful year in 1980.

Business and Public Policy

Public policy that does not enjoy substantial support at all levels of society, or at least majority support in large sectors affected by it, cannot work. Policies and laws which are clearly contrary to the interests of any group will cause that group to seek to change or modify them, to seek ways around them, or in extreme cases to move from their jurisdiction.

Despite the self-evident truth of this, and the innumerable examples of past experience to attest to it, there remains a steadfast conviction among some politicians that any policy can be made to work if avoidance is made impossible or penalties for non-compliance made severe enough. There is also a conviction that business, though it may complain, can be persuaded to continue operating under any politically imposed conditions.

This faith in the power of policy and legislation comes, perhaps, from the inevitable delay between the passage of laws and their effect in the marketplace.

A third view, particularly widely held among politicians of the left, is that businessmen are so ingenious that they can survive any amount of political interference and obstruction and continue to operate profitably and provide the money needed to fuel the economy.

If the successful business executive has any faculty which distinguishes him it is his ability to take the long view and to foresee the consequences of imprudence. This faculty he is more than willing to share with legislators, but the results are not always fruitful.

The businessman in Québec is constantly told by government spokesmen that he has an important part to play in the future of the Province. But it is made clear to him that he can do so only if he plays his part according to rules which are set by the government.

We in business and industry know the importance of our role. We know its value as the chief generator of capital for the financing of the country. We provide and market the goods and services, we pay the wages and salaries, and from these activities flow the taxes that pay for government.

Politicians complain that businessmen stand aloof from political and social concerns. But when we make our views known and they happen to be contrary to government policy, we are branded as reactionary and socially insensitive. We have been invited on a number of occasions to present briefs to governments only to have them completely ignored in the formulation of policy. A typical case was the Québec government's invitation to present briefs on Bill 101. We, along with many other companies, presented comprehensive papers in which we warned of the possible results of needless restrictions on English education and the use of English in signs. We, again along with others, gave our views to the government on the matter of the discriminatory taxation on people with incomes of \$30,000 and over. Our views and warnings were ignored. The predicted results occurred: an increase in the number of professionals and business executives leaving the Province, an inability to bring people into the Province, and a determination among our young graduates to make their careers elsewhere.

Business does not ask for the right to dictate policy. We ask merely to be consulted, to make a contribution to the formulation of laws based on our experience and knowledge in areas where we are expert. And this knowledge extends beyond the popular myth of preoccupation with books of account and balance sheets. As much as with materials and money, we are deeply involved with people. We are concerned about the lives, happiness and careers of our employees. An employee who is paid in relation to his work, who has the opportunity to fulfil his career ambitions, who

is taxed fairly, who can educate his children according to his choice, convictions and conscience is a happy and productive employee. A person who is unfairly penalized through inequitable taxation, who must constantly worry about his future prospects in a deliberately created environment of hostility, who must educate his children in a manner contrary to his preference, who must continually look over his shoulder to see what new rule he has broken is a discontented and unproductive employee. He is a prime candidate for employment in more pleasant climes. This we know from experience.

The intelligent and perceptive businessman in Québec is becoming more aware of the evolution of our society. The turning of the French-speaking Québécois's interest to commerce, industry, technology and science was noted with satisfaction years ago. The industries in these fields have every intention of fostering this interest and availing themselves of these new resources of skill.

It was also clearly understood that this change would bring with it the increasing use of the French language. Restrictive and punitive laws were never necessary to effect or even to accelerate this evolution. They serve only to set one part of our people against the other. But division appears to be the aim of our present Québec government.

While we have every confidence that the majority of Québécois will reject separation, we do not look forward to any referendum. There is enough misunderstanding and lack of sympathy now among various sectors of our society. To inject such a divisive element and invite the people to take sides against each other is an act of political irresponsibility.

Sovereignty-association is a contradiction, cannot be defined, and cannot work. A party that promises sovereignty—which is a euphemism for separation—is offering its electors a revolutionary change with the potential of great social and

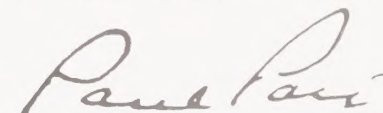
economic upheaval. To tie "association" to this revolution is to throw dust in the eyes of the electorate. The attitudes and events flowing from such a revolution would dictate the terms of any association or even the possibility of one. And the attitudes and events cannot be foreseen by anyone and thus the promise of association is hollow.

Québec cannot prosper as a closed society. Regardless of whatever political alternative it chooses, its economic survival will be tied to its neighbours. In our shrinking world and with the growing interdependence among countries for trade and some minimum degree of monetary stability, there is very little room for any one entity to manoeuvre.

We have the opportunity to make of Québec an example for the rest of Canada and for the world. We can build a bilingual, open society to which all cultures contribute and in which all are protected.

We have our roots in Québec. We have grown and prospered here, and we intend to stay. But we should like to be able to make some contribution to the formulation of the policies which will enable us to do so.

On behalf of the Board of Directors



Paul Paré, President
Montréal, May 31, 1979

Imperial Tobacco

Tobacco division sales for the year were \$741,405,000, an increase of 13% over fiscal 1978 sales of \$655,010,000. Operating earnings were \$78,839,000 compared with \$68,322,000 the previous year, an increase of 15%.

Cigarettes

Total industry sales of cigarettes for the year ending March 31, 1979 amounted to 62.6 billion units, or 2.8% more than in the previous twelve month period.

Imperial Tobacco's cigarette sales outpaced the industry's growth, increasing 10% during the same period. Besides accounting for most of the growth within the industry, Imperial Tobacco's share-of-market increased substantially as all of its major competitors lost market share.

The extraordinary success of Imperial Tobacco's cigarette brand marketing is a reflection of their broad range of product options, and the company's early recognition of a shift in consumer preference to lighter cigarettes. From extra mild cigarettes, currently enjoying increasing consumer acceptance, to the more traditional full-flavoured products, Imperial Tobacco provides a cigarette taste and level of mildness to suit every smoker.

Long-established brands conveying quality and smoking satisfaction continue to enjoy widespread acceptance among discriminating consumers, and have been extended to include milder versions. Player's Light, du Maurier Special Mild, Peter Jackson Extra Light, Matinée Extra Mild and Medallion exemplify Imperial Tobacco's wide range of new cigarettes. For those who prefer a mentholated cigarette, Cameo was extended to include Cameo Extra Mild over two years ago.

This intensive development of new cigarette tobacco formulations and methods of filtration, which achieve milder yet

tasteful products, combined with attractive packaging and appealing advertising have been instrumental in increasing Imperial Tobacco's share of the total cigarette market to over 42%.

Maintaining a long history of leadership in a mature, stable industry where growth generally parallels that of the population, the Imperial Tobacco Division of Imasco has further expanded its major role in good corporate citizenship through the support, preservation and advancement of Canadian cultural and sporting endeavours, as detailed under "Special Events".

Prices and Taxes

Cigarette prices were increased in February 1979 to reflect higher material and operating costs arising from continuing inflation. The heavy burden of federal and provincial taxes borne by tobacco products was further increased in the past year by the provinces of British Columbia, Manitoba, Saskatchewan, Québec, New Brunswick and the Northwest Territories.

Price increases were also introduced on cigar and cut tobacco products this past year as a result of higher material and operating costs.

Cigars and Cut Tobaccos

Sales in this segment of the industry continued to decline. Fine cut cigarette tobacco decreased some 8% to 5,660,000 kg in total. Imperial Tobacco's sales decreased by only 1% resulting in a higher share-of-market of approximately 40%.

Total pipe tobacco sales decreased by some 4% and Imperial Tobacco's volume decreased by about the same amount resulting in a 34% share-of-market for the company.

Cigar sales dropped nearly 4% in total, and the company's cigar product sales declined by 2%.

Special Events

Imperial Tobacco plays a major role in support of Canadian sports and cultural activities, creates career opportunities for Canadians, and enhances important brand names through identifying them with prestigious events.

In January 1979, Imperial Tobacco and Tennis Canada announced the sponsorship of the Canadian Open Tennis Championship by the company. The "Player's International" will be held in Toronto, August 11th-19th. With \$210,000 in prize money this tournament will draw major competitors and associate the great Player's name with a sport that is attracting more public interest and personal participation each year.

The Canadian Open Golf Tournament is well established as one of the most outstanding sporting contests in the world. Sponsored by Peter Jackson cigarettes, this renowned tournament will be held again this year at Glen Abbey Golf Club, June 18th-25th.

Also an event of international repute, the Peter Jackson Classic Golf Tournament for women will be played at Riche-lieu Valley Golf Club, July 23rd-29th.

The continuing support of theatre, music and ballet through the du Maurier Council for the Performing Arts is providing assistance to Canadian artists. The du Maurier Search for Stars programme, introduced in late 1977, has been most successful in providing recognition for outstanding Canadian musical talent. Approximately 1,500 applications were received of which 600 auditions by promising performers were undertaken. Merit Awards of \$500 were presented to 24 applicants, and 18 semi-finalists who appeared on three pre-taped television shows each received \$2,000. From this group, six finalists were selected and appeared at the Queen Elizabeth Theatre in Toronto. The six finalists were each awarded an additional \$5,000.

Leaf Tobacco

The Ontario flue-cured leaf tobacco crop amounted to 230 million pounds in 1978, and the average price paid by domestic buyers was \$1.19 a pound including export assistance payments. Canadian purchases totalled 128 million pounds with the balance of 102 million pounds allocated for export.

The 1979 crop is planned to be 230 million pounds as designated by agreement in 1979 with the Ontario Flue-Cured Tobacco Growers Marketing Board. The minimum average price will be \$1.16 a pound, and 100 million pounds will be destined for export.

Increasing sales of Imperial Tobacco products require enlarged storage and production capabilities. A new leaf tobacco warehouse was completed at Aylmer, Ontario in January 1979. With the additional floor area of 175,000 square feet, the total space now available for leaf storage is 783,000 square feet comprising nine individual warehouses.

Employee Relations

New two-year agreements were signed with the Bakery, Confectionery and Tobacco Workers International Union covering employees at our five plants in Québec and Ontario. The new contract terms run to fiscal 1981.

Productivity

The programme announced early last year to modernize and expand production facilities over a five-year period is well underway. Intended to keep pace with new mechanical technology, this programme will also enlarge the company's manufacturing capability to cope with increasing product sales volume.

Besides the acquisition of new high-speed equipment, air-conditioning and noise reduction for employee comfort forms part of this programme.

Future

Imperial Tobacco is increasing sales and share-of-market. With continued development to provide a full range of product options for smokers, the future of the company is bright and its leadership in the Canadian tobacco industry is assured.

Imasco Associated Products

Imasco Associated Products Limited is responsible for the management of all non-tobacco operations of the corporation.

System-wide sales were \$871,883,000, an increase of \$431,074,000 or 98% over last year. System-wide sales are those of the operating companies and of the franchised operations of Shoppers Drug Mart and The Tinder Box International, Ltd.

Operating earnings were \$36,242,000 an increase of \$20,611,000 or 132% over last year.

Revenues from food operations were \$197,569,000 compared with \$220,103,000 last year. Retail revenues were \$249,092,000 compared with \$199,440,000 last year.

Earnings from operations in the food companies were \$13,848,000 in comparison with \$8,784,000 last year. Operating earnings from retail activities were \$22,394,000 compared with \$6,847,000 last year.

The significant increase in revenues and earnings in retail operations is chiefly attributable to the inclusion of the results of Shoppers Drug Mart from April 1, 1978, the date of acquisition.

Food

Progresso Foods

Progresso Foods was sold effective March 31, 1979. Results of Progresso's

operations for the fiscal year have been included in this consolidated annual report.

Unico Foods

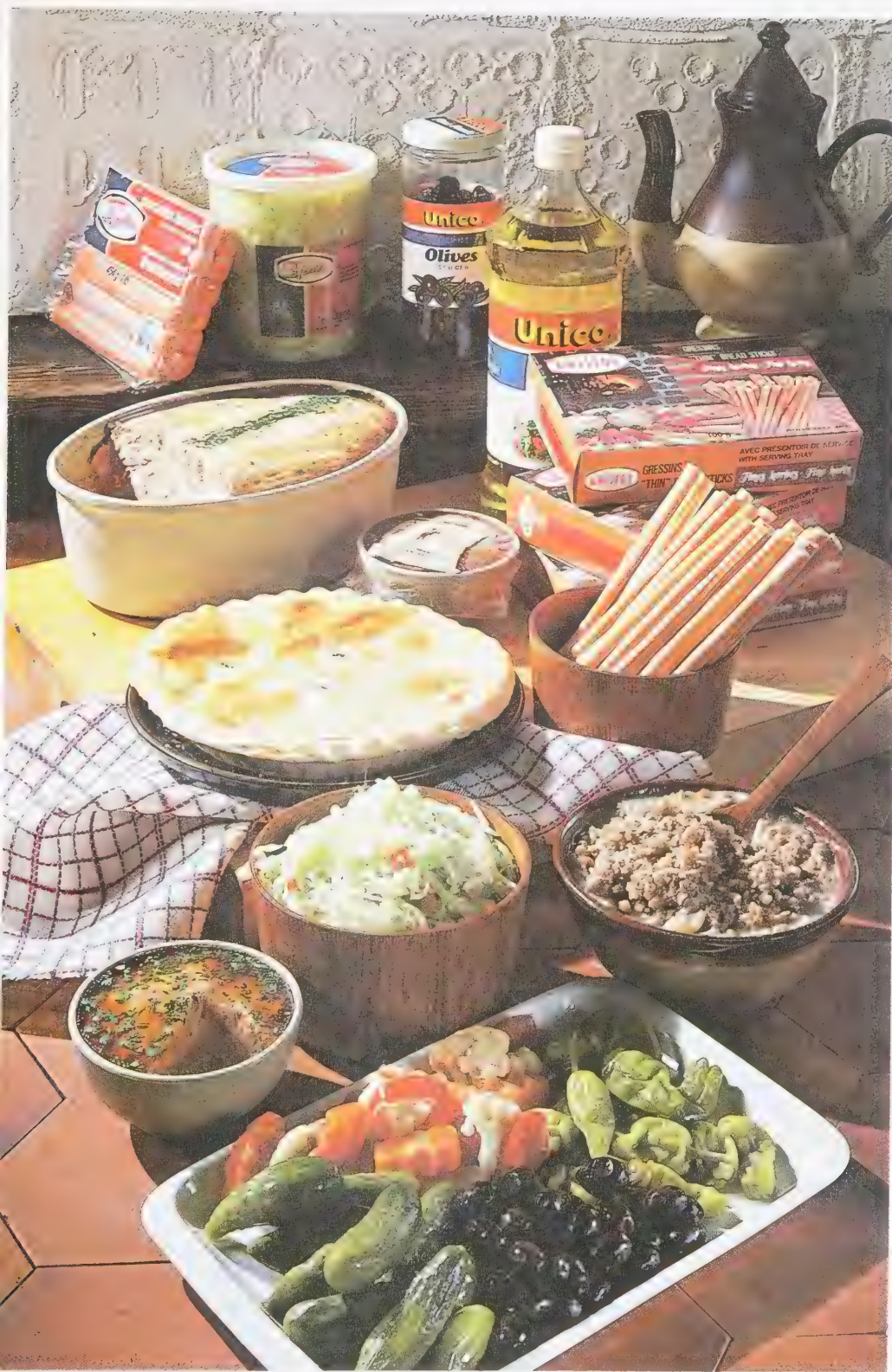
Unico continues to be a major supplier of Italian-type specialty foods, mainly in Ontario and Québec. The company continues to show growth as it increases sales through chain stores. Increased advertising and participation in various types of sales promotions are giving more exposure to the Unico name. The results of this higher profile can be seen in increased sales for canned fish, olives, pickled goods and vegetable oil. Unico oil, an all Canadian product, remains a favourite in household and institutional kitchens, and now ranks among the leaders in the vegetable oil market in Ontario.

Grissol Foods

Grissol Foods comprises a group of operating divisions manufacturing a variety of food products. The Grissol division, specializing in dry bread products and soups, maintained its sales leadership during the year. This sustained sales growth requires expansion of manufacturing facilities in the coming year. Grissol recently also acquired a plant in Swanton, Vermont, manufacturing bread products.

Sales of bread sticks, Melba toast, bread crumbs, croutons, stuffing and other dry bread products have increased and expansion into markets outside Québec has been encouraging. A new, slim breadstick, Gressins, in three flavours, *Gourmet*, *Fines Herbes* and *Ciboulette*, was recently introduced and shows promise of good acceptance.

Grissol also produces dry soups under the Loney's brand for both domestic and commercial food service. Sales of all Loney's soups increased during the year and several new products and packagings are under development.



A selection of fine food products, new and traditional, from Grissol, Taillefer and Unico Foods.

Viau

Viau is one of the largest biscuit and candy manufacturers in Canada with its main market in Québec.

Viau's operations are complemented by Biscuits Montmagny which holds a major segment of the market for biscuits and candies in rural Québec.

Both companies maintained their strong positions during the year.

Taillefer

The Taillefer division produces prepared meats and traditional Québec specialties such as charcuterie, pâté and cretons. Hams, bologna, wieners, bacon and the new line of high quality products under the La Varenne brand have been enthusiastically received. Taillefer division's sales have increased more than 50% over those of the previous year.

This sales trend is continuing, and to meet the steadily increasing demand, the division's plant at Magog, Québec has undergone a major expansion of production facilities.

Outlook

Sales of food products companies should continue to increase in fiscal 1980 and expansion of these activities through compatible acquisitions is being studied.

Retail

Retail operations consist of over 1,000 outlets including drug stores, gift stores, tobacco specialty stores, sporting goods stores, and dry cleaning stores.

Shoppers Drug Mart

Shoppers Drug Mart operates a group of franchised drug stores in Canada and the United States and a chain of dry cleaning establishments in Ontario under the name Embassy Cleaners.

Sales and revenues increased in all operations during the year. The first phase of a two-year plan to integrate Top Drug Mart and Shoppers Drug Mart stores was completed and 13 Top Drug Mart stores were converted to Shoppers Drug Mart outlets.

In addition 25 new drug stores were opened and five dry cleaning stores were purchased. Sales increases were achieved in all regions of Canada. Expansion of operations in Canada will continue in 1980, with priority given to the conversion of remaining Top Drug Mart stores to Shoppers Drug Mart franchises.

Shoppers Drug Mart has a 50% interest in the group of drug stores operating in Québec under the Pharmaprix name.

Shoppers Drug Mart has expanded operations into the United States and has established a regional office in Boca Raton, Florida. The Shoppers Drug Mart concept has been well-received in the area and there are now 10 stores in Florida. Expansion into other areas of the U.S. is under study.

Shoppers Drug Mart group now comprises 333 Shoppers Drug Mart and Top Drug Mart stores, 32 Pharmaprix stores, and 84 Embassy Cleaners stores.

The UCS Group Limited

Formerly United Cigar Stores Limited, The UCS Group Limited operates tobacco shops, gift stores and newsstands in hotels, airports, and shopping centres as well as traditional street stores. The company also operates tobacco departments in Woolco department stores.

In the last several years notable success has been achieved with a new concept in specialty shops featuring not only tobacco and related items but also a selected range of quality gifts. Operating under such names as Den for Men, which specializes in male-orientated gifts, and Lamplighter, which features both tobacco

products and gifts, these outlets have proved popular among shoppers and sites for expansion of the concept are under consideration.

There are now 387 UCS outlets across Canada.

The UCS Group also operates The Tinder Box International, Ltd, a chain of franchised and company-owned specialty tobacco shops in the United States. These stores are situated in carefully selected shopping centres where they attract the smoker or gift buyer who is looking for extra quality, extensive selection and personal attention. Expansion continues and 12 stores were opened during the year bringing the total to 173.

Collegiate/Arlington Sports

Collegiate/Arlington operates a chain of 25 sporting goods stores from Québec to British Columbia. During the year new stores were opened in Montréal, Toronto and Ottawa areas. Further openings are planned for fiscal 1980, including one in the Toronto Eaton Centre.

This particular sector of specialized retailing continues to be highly competitive. The Collegiate/Arlington management have responded by strengthening their marketing, advertising and merchandising approach. Improved warehousing, distribution, buying and inventory control programmes were instituted during the year and are showing good results.

Outlook

Fiscal 1980 should see a satisfactory increase in sales and earnings from all operations of Imasco Associated Products.

Specialized retailing outlets are situated in Canada's most modern shopping malls.



- 1 Shoppers Drug Mart, Hillcrest Mall, Richmond Hill, Ontario. Attractive appearance and wide selection of products, including Shoppers Drug Mart's own LIFE brand products, are typical of this Canada-wide group of drug stores.
- 2 Au Masculin
Les Promenades St-Bruno, Québec
- 3 Arlington Sports
Les Promenades St-Bruno, Québec
- 4 Collegiate Sports
Oshawa Center, Ontario

Imasco Limited Operating Divisions

Imperial Tobacco Limited *Montréal, Québec*

Manufactures and distributes cigarettes, fine cut tobaccos, pipe tobaccos, chewing tobaccos and snuff.

Paul Paré, Chairman of the Board

~~L. Edmond Riard, President~~

Jean-Louis Mercier, ~~Executive Vice-President~~

Clifford Warren, Executive Vice-President

Marius Dagneau, Vice-President

Pierre Desjardins, Vice-President

E. Peter Gage, Vice-President

Robertson M. Gibb, Vice-President

Anthony I. Kalhok, Vice-President

André Laporte, Vice-President

Claude Mercier, Vice-President

William J. Ross, Vice-President

William J. Harris, Secretary

Robert Bégin, C.A., Comptroller

John Gerlich, Assistant Comptroller

General Cigar Company Limited *Montréal, Québec*

Manufactures and distributes cigars.

Imperial Leaf Tobacco *Aylmer, Ontario*

Purchases and processes leaf tobacco for Imperial Tobacco and for export.

Imasco Associated Products Limited *Toronto, Ontario*

Paul Paré, Chairman

George G. Ross, C.A., President

Ronald F. Findlay, C.A., Executive Vice-President

John J. Ruffo, Executive Vice-President

Wilmat Tennyson, Executive Vice-President

John F. Mathers, C.A., Treasurer

Stella M. Pavic, Secretary

G. Michael Martin, C.A., Comptroller

Food

Unico Foods Limited *Toronto, Ontario*

Markets over 175 Italian food products.

Edward C. Pasquale, Jr., President

Grissol Foods Limited *Montréal, Québec*

Manufactures and distributes a variety of food products through several divisions.

Grissol: Bread specialties and soups.

Viau: biscuits and candies.

Taillefer: prepared meat products.

Montmagny: biscuits and candies.

Yves Hudon, President

Retail

The UCS Group Limited *Toronto, Ontario*

A chain of 387 retail tobacco and gift shops.

Frederick C. Van Parys, President

Collegiate / Arlington Sports *Toronto, Ontario*

A chain of 25 retail sporting goods stores.

Bruce S. McCubbin, President

Shoppers Drug Mart *Toronto, Ontario*

A chain of 365 franchised and company owned drug stores operating in Canada and the United States under the names of Shoppers Drug Mart, Top Drug Mart and Pharmaprix; 84 dry cleaning outlets under the name Embassy Cleaners.

Murray B. Koffler, C.M., Chairman of the Board

Jack Gwartz, President

The Tinder Box International, Ltd. *Santa Monica, California*

A franchisor of 173 retail specialty tobacco shops in the United States.

Laurence H. Simpson, President

Consolidated Statement of Earnings

	1979	1978
	Thousands of dollars	
Revenues (Note 4)	1,161,526	1,049,421
Sales and excise taxes	363,180	330,258
	798,346	719,163
Operating Costs	689,849	640,939
Earnings from operations (Note 4)	108,497	78,224
Interest—net (Note 5)	10,932	7,076
Earnings before income taxes	97,565	71,148
Income taxes	40,455	27,486
	57,110	43,662
Minority interest	703	584
Earnings before extraordinary items	56,407	43,078
Extraordinary items (Note 6)	1,314	(2,344)
Net earnings after extraordinary items	57,721	40,734
Earnings per common share:		
before extraordinary items		
basic	\$5.64	\$4.42
fully diluted	\$5.40	\$4.42
after extraordinary items		
basic	\$5.77	\$4.18
fully diluted	\$5.53	\$4.18

Consolidated Statement of Retained Earnings

Retained earnings, beginning of year	178,723	152,258
Net earnings after extraordinary items	57,721	40,734
Dividends (Note 7)	(17,297)	(14,269)
Retained earnings, end of year	219,147	178,723

The accompanying notes form an integral part of these statements.

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited as at March 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Imasco Limited and its subsidiary companies our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those companies which are accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, based on our examination and the reports of other auditors, these consolidated financial statements present fairly the financial position of the corporation as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells

Chartered Accountants
Montréal, Canada

May 31, 1979

Consolidated Balance Sheet

		1979	1978
		Thousands of dollars	
Current assets	Cash and term deposits	12,532	28,662
	Accounts and notes receivable	89,003	50,853
	Inventories (Note 8)	282,215	272,016
	Prepaid expenses	2,653	2,820
	Total current assets	386,403	354,351
Current liabilities	Bank and other short term loans	92,925	47,855
	Accounts payable and accrued liabilities	67,739	63,540
	Income, excise and other taxes	28,922	22,536
	Current portion of long term debt (Note 10)	2,930	3,066
	Total current liabilities	192,516	136,997
	Working capital	193,887	217,354
Other assets	Investments in associated companies (Note 2)	53,139	35,856
	Other investments and receivables	25,967	9,709
	Deferred charges	8,186	4,930
	Fixed assets (Note 9)	93,826	70,221
	Goodwill	39,556	1,147
	Total other assets	220,674	121,863
	Excess of assets over current liabilities	414,561	339,217
Other liabilities	Long term debt (Note 10)	99,967	95,511
	Deferred income taxes	15,729	9,569
	Minority interest	891	1,261
	Total other liabilities	116,587	106,341
	Excess of assets over liabilities	297,974	232,876
Shareholders' equity	Capital stock (Note 11)	78,827	54,153
	Retained earnings	219,147	178,723
	Total shareholders' equity	297,974	232,876

Approved by the Board,
Paul Paré, Director
Purdy Crawford, Q.C., Director

The accompanying notes form an integral part of these statements.

Consolidated Statement of Changes in Financial Position		1979	1978
		Thousands of dollars	
Source of funds	Earnings before extraordinary items	56,407	43,078
	Non-cash items	19,297	12,164
	Funds provided from operations	75,704	55,242
	Sale of operating units	40,301	41,263
	Working capital sold	(24,248)	(25,673)
		16,053	15,590
	Issuance of Series A preference shares	24,674	—
	Other investments and receivables	2,995	—
	Sale of fixed assets	2,171	494
	Long term debt	—	1,682
	Other	86	801
	Total source of funds	121,683	73,809
Application of funds	Purchase of subsidiaries	65,131	—
	Working capital acquired	(5,937)	—
		59,194	—
	Fixed assets	31,055	17,170
	Investment in associated companies	19,387	5,192
	Dividends	17,297	14,269
	Long term debt	4,987	3,992
	Other investments and receivables	10,036	502
	Deferred charges	3,194	760
	Total application of funds	145,150	41,885
Working capital	(Decrease) increase in working capital	(23,467)	31,924
	Beginning of year		
	As previously reported	214,747	182,823
	Adjustment of foreign exchange (Note 1)	2,607	2,607
	As restated	217,354	185,430
	End of year	193,887	217,354
The accompanying notes form an integral part of these statements.			

Notes to the Consolidated Financial Statements

Thousands of dollars

1. Summary of accounting policies	<p>The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following:</p> <p>a) Basis of consolidation The consolidated financial statements include the accounts of Imasco Limited and all subsidiaries. Acquisitions have been accounted for as purchases and the results of operations of acquired businesses have been included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized on a straight-line basis over their estimated lives, not exceeding 40 years.</p> <p>b) Investments Investments in associated companies, representing significant minority interests, have been accounted for on the equity method based on their latest audited financial statements. Other investments are stated at cost.</p> <p>c) Foreign exchange United States dollar amounts have been translated to Canadian dollars on the following bases: fixed assets, accumulated depreciation, investments in associated companies and goodwill at exchange rates in effect at the appropriate acquisition dates; all other assets and liabilities at exchange rates in effect at year-end; all earnings accounts, other than depreciation and amortization of goodwill, at average exchange rates for the year. Net accumulated unrealized gains on translation of \$2,660 have been deferred in accounts payable and accrued liabilities. During the year the corporation retroactively changed the basis of translating investments in associated companies from the exchange rate in effect at the year-end to the exchange rates in effect at the appropriate acquisition dates. This change has no effect on the statement of earnings but results in an adjustment of \$2,607 to the working capital position at the beginning of the prior year.</p> <p>d) Inventories Inventories are valued at the lower of cost and net realizable value. Cost is determined for each division substantially as follows: Imperial Tobacco: Average cost Food: First-in, first-out Retail: Retail inventory method</p> <p>e) Fixed assets Fixed assets are stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principle classes of assets range from 14 to 40 years for buildings, and from 5 to 14 years for equipment. Leasehold improvements are amortized on a straight-line basis over the term of the respective leases.</p> <p>f) Income taxes Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances for income tax purposes in excess of depreciation recorded in the financial statements.</p> <p>g) Pension plans The companies have pension and retirement plans available to substantially all their employees. Current service costs are charged to earnings as they accrue. The unfunded liability for past service benefits is estimated at \$31,510 as at March 31, 1979 and will be funded and charged to earnings, with interest, over periods up to 15 years.</p>
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Notes to the Consolidated Financial Statements

		Thousands of dollars	
2. Investments in associated companies		Carrying value	
Companies	% Interest in Common Shares	1979	1978
Hardee's Food Systems, Inc.			
Common shares	22	20,215	1,225
Convertible preferred shares	—	15,792	15,792
Canada Northwest Land Limited	21	8,711	8,149
PoP Shoppes of America, Inc.			
Common shares	48	6,540	2,769
Preferred shares and notes receivable	—	1,881	7,921
		53,139	35,856

The excess of the cost of the investments over the underlying book value of the associated companies' net assets at the dates of purchase has been ascribed \$1,972 to productive assets of Canada Northwest Land Limited and \$5,320 to goodwill with respect to Hardee's Food Systems, Inc. The goodwill is being amortized on a straight-line basis over 25 years.

The investment in Hardee's Food Systems, Inc. represented a 4% interest in common shares in 1978 and was included at cost in other investments. Additional investments made during fiscal 1979 increased the interest in common shares to 22% and the investment has been reclassified as an investment in an associated company. As the latest fiscal year-end of this company approximates the dates of acquisition of the additional investment, no portion of the earnings of this company has been included in the consolidated financial statements for the year ended March 31, 1979, except dividends received on preferred shares. Conversion of the preferred shares into common shares, exercisable to April 15, 1980, would increase the equity ownership to 39%. During the year \$7,169 of notes receivable from PoP Shoppes of America, Inc. were converted to additional common shares thereby increasing the percentage of equity ownership from 20% to 48%.

Under terms of an agreement with PoP Shoppes International Inc., the parent company of PoP Shoppes of America, Inc., the investment in PoP Shoppes of America, Inc. is to be exchanged for 478,000 preference shares of PoP Shoppes International Inc. These preference shares will be of a class of shares to be created and issued any time up to July 15, 1979 and will be designated as 5% non-voting cumulative redeemable second preference shares with a par value of \$25.00 U.S. each.

PoP Shoppes International Inc. will be required to redeem at par at least 53,111 of these preference shares annually commencing September 30, 1982 and dividends will accrue on the par value of these shares beginning October 1, 1982.

During the year an amount of \$2,552 of unamortized goodwill which arose on the acquisition of PoP Shoppes of America, Inc. has been written off. This amount has been treated as an extraordinary item.

3. Acquisitions	Effective April 1, 1978 the corporation acquired Koffler Stores Limited. Details of the acquisition, which has been accounted for by the purchase method, are as follows: Net assets acquired at book value (being fair value)	
	Current assets	11,349
	Fixed assets	19,167
	Other assets	12,304
		42,820
	Current liabilities	(5,412)
	Non-current liabilities	(10,285)
		(15,697)
	Net assets acquired	27,123

Notes to the Consolidated Financial Statements

		1979	1978
		Thousands of dollars	
3. Acquisitions (cont'd)	Excess of purchase price of shares over value of net assets acquired (to be amortized over 40 years)	39,517	
		66,640	
	Consideration given		
	Cash (including \$1,509 in fiscal 1978)	41,966	
	704,976 Series A preference shares	24,674	
		66,640	
4. Operating results by division	Revenues		
	Imperial Tobacco	741,405	655,010
	Food	197,569	220,103
	Retail—sales	221,855	198,276
	—franchise fees and other income	27,237	1,164
	Interdivisional transactions	(26,540)	(25,132)
		1,161,526	1,049,421
	Earnings from operations		
	Imperial Tobacco	78,839	68,322
	Food	13,848	8,784
	Retail	22,394	6,847
		115,081	83,953
	General administration	(6,584)	(5,729)
		108,497	78,224
	Amortization of goodwill and related costs deducted in arriving at earnings from operations	1,108	579
5. Interest—net	Interest on long term debt	9,760	9,166
	Other interest (income) expense	2,076	(1,037)
	Income from other investments	(497)	(174)
	Preferred dividends and equity in income of associated companies	(407)	(879)
		10,932	7,076
	Amortization of goodwill in determining equity in income of associated companies	202	193
6. Extraordinary items	Gain (loss) on sale of operating units	3,866	(2,344)
	Write-down of investment (Note 2)	(2,552)	—
		1,314	(2,344)
	The gain on sale of \$3,866 gives effect to the March 31, 1979 sale of the Progreso Foods Division of Imasco Foods Corporation. The results of operations of this division for the year ended March 31, 1979 have been included in these financial statements.		
7. Dividends	6% cumulative preference shares	348	348
	Series A preference shares	933	—
	Common shares	16,007	13,861
	Tax paid to create tax-paid undistributed surplus	9	60
		17,297	14,269
	The trust agreements relating to the Series A, B and C debentures contain restrictions regarding the payment of dividends. At March 31, 1979, \$125,346 of retained earnings was free from such restrictions.		

Notes to the Consolidated Financial Statements

1979 1978

Thousands of dollars

8. Inventories by division	Imperial Tobacco		
	Finished goods	74,372	60,430
	Raw material, supplies and work in process	154,463	131,124
		228,835	191,554
	Food	10,948	35,724
	Retail	42,432	44,738
		282,215	272,016
Food and retail inventories consist mainly of finished goods.			
9. Fixed assets and accumulated depreciation	Land	3,050	3,375
	Buildings	40,757	42,380
	Equipment	112,975	85,690
	Leasehold improvements	23,198	9,139
		179,980	140,584
	Accumulated depreciation	86,154	70,363
	Net fixed assets	93,826	70,221
10. Long term debt	Depreciation expense	11,984	8,050
	8½% sinking fund debentures Series A due March 15, 1991	26,600	27,650
	Less held in treasury	2,122	801
		24,478	26,849
	10½% sinking fund debentures Series B due August 1, 1995	26,700	27,900
	10¼% sinking fund debentures Series C due October 22, 1990 (\$20,000 U.S.)	23,188	22,678
	7½% five year notes due February 15, 1982 (\$15,000 U.S.)	17,391	17,008
	9% sinking fund debentures due July 2, 1992	7,683	—
	Other long term obligations	3,457	4,142
		102,897	98,577
	Less current portion	2,930	3,066
		99,967	95,511
	Required payments during the next 5 years, including annual sinking fund payments on the Series A and B debentures of \$1,050 and \$900 respectively and \$2,319 on the Series C debentures commencing in 1982, amount to: 1980, \$2,930; 1981, \$2,725; 1982, \$22,544; 1983, \$5,205; 1984, \$5,068.		
11. Capital stock	The authorized capital of the corporation consists of:		
	a) 1,650,000 6% cumulative preference shares.		
	b) an unlimited number of preference shares, issuable in series, with the stated value for each series to be fixed by the Board of Directors.		
	705,377 Series A preference shares were authorized on April 13, 1978 having a stated value of \$35.00 each, a fixed cumulative dividend of 5% to June 30, 1981 and 7¾% thereafter; each convertible into one common share prior to June 30, 1981 and redeemable at the stated value of \$35.00 to June 30, 1981 and at varying values from \$36.75 to \$35.00 subsequent to June 30, 1986.		

Notes to the Consolidated Financial Statements

1979 1978

Thousands of dollars

11. Capital stock (cont'd)	c) an unlimited number of no par value common shares. Outstanding at March 31 are:			
	1,191,888 6% preference shares	5,800	5,800	
	333,792 Series A preference shares	11,683	—	
	10,041,716 common shares (1978 9,670,532 shares)	61,344	48,353	
		78,827	54,153	
	During the year 704,976 Series A preference shares were issued (Note 3); subsequently 371,184 of those issued were converted to an equal number of common shares. The Class A and Class B interconvertible common shares were reclassified to a single class of common shares as of January 1, 1979.			
12. Lease commitments	The companies have commitments with respect to real estate leases most of which are for terms of from 5 to 15 years. The minimum annual rental commitment under such leases is approximately as follows:			
	Rental commitment	Rental commitment assumed by franchisees	Net rental commitment	
	1980	20,680	12,714	7,966
	1981	20,457	12,714	7,743
	1982	19,580	12,672	6,908
	1983	18,360	12,358	6,002
	1984	17,224	12,271	4,953
	The minimum annual rental commitment as listed above does not give effect to escalation and percentage of sales clauses in certain of the leases. Net rentals under these operating leases including escalation and percentage of sales clauses amounted to \$10,254 (1978 \$9,119).			
13. Contingent liability	The corporation has provided guarantees to various banks in respect of borrowings by franchisees. The total of these guarantees at March 31, 1979 was \$18,000 of which the outstanding indebtedness of the franchisees was \$14,000.			
14. Statutory requirements	a) Classes of business The directors have determined at a meeting of directors and have recorded in the minutes thereof the classes of business in accordance with Section 47 of the Canada Business Corporations Regulations, based upon the functional and managerial organization of the corporation.			
	b) The Companies Act (British Columbia) These consolidated financial statements include the accounts of all subsidiary companies but only some of the principal operating subsidiaries have been named elsewhere in this report. A list of all of the subsidiaries of the corporation is available for inspection at the corporation's registered office in British Columbia.			
	c) Remuneration of directors and senior officers Aggregate remuneration paid during the year to directors as directors was \$51. Remuneration of officers, including directors who are also officers, aggregated \$2,564.			

Corporate Information

Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Canada H3B 2W3
Transfer agents	Crown Trust Company, Montréal The Royal Trust Company, Halifax, Toronto, Winnipeg, Regina, Calgary, Vancouver
Registrars	Montreal Trust Company, Halifax National Trust Company, Limited, Montréal, Toronto, Vancouver The Bankers' Trust Company, Winnipeg, Regina, Calgary
Stock exchange listings	Montréal, Toronto, Vancouver and London, England
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia Bank Canadian National Bank of Montreal Morgan Guaranty Trust Company of New York Bank of America
Financial calendar 1979/1980	Annual Meeting: July 11, 1979 Quarterly reports mailed: August, November, February Dividend dates: Common shares Series A preference shares Quarterly; June, September, December, March 6% preference shares Semiannually; September, March Interest on debentures payable: Series A 8½%: March 15, September 15 Series B 10⅞%: February 1, August 1 Series C 10¼%: April 22, October 22

Statistical Highlights – Ten Year Review

1979

1978

Sales and earnings	Revenues	1,161,526	1,049,421
	Depreciation	11,984	8,050
	Earnings before income taxes	97,565	71,148
	Income taxes	40,455	27,486
	Earnings before extraordinary items	56,407	43,078
	Net earnings after extraordinary items	57,721	40,734
	Earned on common shares before extraordinary items	56,059	42,730
	Per common share fully diluted (in dollars)	5.40	4.42
Dividend record	On preference shares	1,281	348
	On common shares	16,016	13,921
	Per common share (in dollars)	1.64	1.44
Capital expenditures	On fixed assets	31,055	17,170
Financial position	Current assets	386,403	354,351
	Current liabilities	192,516	136,997
	Working capital	193,887	217,354
	Fixed assets (before depreciation)	179,980	140,584
	Fixed assets (less depreciation)	93,826	70,221
	Long term debt	99,967	95,511
	Excess of assets over liabilities	297,974	232,876
Shareholders' equity	Preference shareholders	17,483	5,800
	Common shareholders	280,491	227,076
	Per common share (in dollars)	27.93	23.48

1976–79: 12 months ended March 31.

1975: 15 months ended March 31.

1969–73: 12 months ended December 31.

1977	1976	1975	1973	1972	1971	1970	1969
Thousands of dollars, except "per common share" statistics							
1,031,642	941,223	1,030,293	717,102	625,613	569,629	582,163	512,987
8,456	7,526	8,874	6,642	5,497	4,431	4,132	4,371
61,470	60,978	64,509	49,715	40,761	34,176	31,110	26,016
26,252	26,234	27,553	21,571	18,536	16,349	15,154	12,540
34,921	36,516	36,778	28,036	22,162	17,661	15,691	13,383
35,215	34,564	36,778	28,036	22,162	17,539	15,691	12,226
34,573	36,168	36,343	27,688	21,814	17,313	15,343	13,035
3.58	3.74	3.76	2.86	2.26	1.79	1.59	1.35
348	348	435	348	348	348	348	348
13,071	12,555	15,009	11,605	10,638	9,671	7,736	7,736
1.35	1.30	1.55	1.20	1.10	1.00	.80	.80
17,118	12,749	15,130	13,203	5,185	6,642	12,104	4,033
326,930	295,759	279,734	209,916	186,458	174,230	173,779	167,818
144,107	111,715	162,701	111,211	89,193	68,887	74,692	72,168
182,823	184,044	117,033	98,705	97,265	105,343	99,087	95,650
146,375	146,392	137,177	126,145	118,368	104,563	98,031	89,360
74,973	75,816	71,712	66,843	62,826	56,087	53,508	47,056
95,920	79,768	31,882	35,005	36,667	37,349	34,476	36,956
206,411	186,055	163,356	141,346	131,212	131,556	127,031	119,221
5,800	5,800	5,800	5,800	5,800	5,800	5,800	5,800
200,611	180,255	157,556	135,546	125,412	125,756	121,231	113,421
20.74	18.64	16.29	14.02	12.97	13.00	12.54	11.73



*Canada Northwest Land Limited
Calgary, Alberta*

Percentage owned: 21
Financial year end: September 30

	1978	1977
Revenue:	\$8,813,000	\$4,620,000
Earnings:	\$2,704,000	\$1,448,000



*Hardee's Food Systems, Inc.
Rocky Mount, North Carolina*

Percentage owned: 39
Financial year end: October 31

	1978	1977
Revenue:	\$258,656,000	\$214,389,000
Earnings:	\$ 8,260,000	\$ 6,406,000

(U.S. Funds)

The 39% ownership of Hardee's Food Systems, Inc. assumes the conversion of preferred shares to common shares.

AR28

79/80



Imasco Limited
4 Westmount Square
Montréal, Canada H3Z 2S8

To our shareholders

Consolidated net earnings for the six months ended September 30, 1979 were \$31,400,000, an increase of \$5,467,000 or 21% over earnings of \$25,933,000 in the first half last year.

Earnings per common share for the first half were \$3.03 basic and \$3.01 fully diluted, compared with \$2.61 basic and \$2.48 fully diluted in last year's first half.

Consolidated net earnings in the second quarter were \$15,459,000, equal to \$1.48 per share, basic and fully diluted. Comparable figures for the second quarter last year were \$14,044,000, or \$1.41 basic and \$1.34 fully diluted.

As the Series A Preference Shares were either redeemed or converted in July, their potential as a diluent is not applicable to per-share earnings of the second quarter.

Imperial Tobacco

Sales of Imperial Tobacco Limited for the six months were \$419,900,000, an increase of 11%. Operating earnings were \$47,899,000, an increase of \$9,317,000 or 24% over those of the comparable period last year. Sales and earnings in the first half last year were \$378,150,000 and \$38,582,000.

Sales in the second quarter were \$207,746,000, an increase of 9%. Earnings were \$22,497,000, up 12%. Sales and earnings for this period last year were \$190,236,000 and \$20,025,000.

Unit sales of Imperial Tobacco's cigarette brands rose some 9% in the first six months as compared with the period last year. This increase in sales resulted in the expansion of Imperial's share of the Canadian cigarette market as the rate of increase for the industry was only 1%.

The Ontario flue-cured tobacco crop was partly afflicted with a blight known as "blue mold". Some 30% of a crop originally estimated at 230 million pounds has been lost as a result. Imperial Tobacco has taken steps to ensure that this crop loss will have no effect on the availability of our products. However, the loss could result in higher leaf prices, and Canadian exports of tobacco will be reduced from a planned 100 million to 65 million pounds.

Imasco Limited
4 Westmount Square
Montréal, Canada H3Z 2S8

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Retail

System-wide sales of retailing operations in the first half were \$350,847,000, an increase of 15%. Earnings were \$8,177,000. Comparable figures for the first half last year were \$305,789,000 and \$9,709,000.

System-wide sales in the second quarter were \$177,510,000, an increase of 14%. Earnings were \$4,274,000. In the period last year, sales were \$155,144,000 and earnings \$5,350,000.

The decline in retail earnings reflects the generally depressed conditions currently prevailing in the Canadian retail industry. Competition for the consumer's dollar has forced retailers to accept lower margins in order to reduce inventories and their attendant high interest costs.

The accelerated store-opening programme of Shoppers Drug Mart, particularly in Florida, has contributed to the decline in earnings. This is in line with projections and we are confident in the future profitability of this programme.

Shoppers Drug Mart, which holds a 50% interest in Pharmaprix Limitée, has entered into an agreement to acquire the other 50% from Steinberg Inc. Pharmaprix has 35 stores in Québec.

Food

Sales of food operations for the six months were \$56,429,000 compared with \$94,191,000 last year. Earnings were \$4,854,000 compared with \$6,168,000.

Second quarter sales were \$28,383,000 and earnings were \$2,607,000. In last year's second quarter, sales and earnings were \$50,234,000 and \$3,784,000.

These declines in sales and earnings reflect the absence from this year's statements of the results of food companies which were sold. Exclusion of these companies' results from last year's figures would show, for comparative purposes, sales increases for food operations of 17% for both the six months and the second quarter, and increases in earnings of 35% for the six months and 18% for the second quarter.

All segments of food operations are progressing satisfactorily, with particularly good results in the Taillefer meat processing division of Grissol Foods.

Investments

Our investment in Canada Northwest Land Limited amounts to 21%, and in Hardee's Food Systems Inc., assuming conversion of preference shares, to 46%. These investments are accounted for on the equity basis. Our share in the earnings of these companies amounted to \$1,793,000 for the six months and is shown in the accompanying financial statements.

Dividends

On November 1, 1979 the Board of Directors declared a quarterly dividend of 50 cents on the common shares, payable December 31 to shareholders of record November 30, 1979.

Outlook

The present state of the economy, restrictions on credit, rapidly increasing interest rates, and widespread expectations of a general North-American recession make market predictions difficult. However, we expect results for the second half will be at least equal to those of the first six months.

On behalf of the Board of Directors

A handwritten signature in dark ink, reading "Paul Paré". The signature is fluid and cursive, with the first name "Paul" and last name "Paré" clearly distinguishable.

Paul Paré
Chairman and Chief Executive Officer
Montréal, November 1, 1979

Imasco Limited
Six months, April to September
(Unaudited)

Consolidated Statement of Earnings	Second Quarter		Six months	
	1979	1978	1979	1978
	Thousands of dollars		Thousands of dollars	
Revenues	284,843	292,991	574,349	575,017
Sales and excise taxes	101,566	93,535	200,573	183,326
	183,277	199,456	373,776	391,691
Operating costs	155,959	171,810	316,423	340,180
Earnings from operations	27,318	27,646	57,353	51,511
Interest — net	2,311	2,903	5,762	5,543
Earnings before income taxes	25,007	24,743	51,591	45,968
Income taxes	10,713	10,680	21,807	19,825
Minority interest	81	192	177	419
	14,213	13,871	29,607	25,724
Share of earnings in associated companies	1,246	173	1,793	209
Net earnings	15,459	14,044	31,400	25,933
Earnings per common share:				
basic	\$1.48	\$1.41	\$3.03	\$2.61
fully diluted	\$1.48	\$1.34	\$3.01	\$2.48

Consolidated Statement of Retained Earnings

Retained earnings, beginning of period	229,823	186,757	219,147	178,723
Net earnings	15,459	14,044	31,400	25,933
Dividends	(5,263)	(3,959)	(10,528)	(7,814)
Retained earnings, end of period	240,019	196,842	240,019	196,842

Imasco Limited
Six months, April to September
(Unaudited)

Operating Results by Division	Second Quarter		Six months	
	1979	1978	1979	1978
	Thousands of dollars		Thousands of dollars	
Revenues				
Imperial Tobacco	207,746	190,236	419,900	378,150
Retail — sales	48,624	52,130	97,158	102,931
— franchise fees and other income	7,317	6,874	14,389	12,511
Food	28,383	50,234	56,429	94,191
Interdivisional transactions	(7,227)	(6,483)	(13,527)	(12,766)
	284,843	292,991	574,349	575,017
Earnings from Operations				
Imperial Tobacco	22,497	20,025	47,899	38,582
Retail	4,274	5,350	8,177	9,709
Food	2,607	3,784	4,854	6,168
	29,378	29,159	60,930	54,459
General administration	(2,060)	(1,513)	(3,577)	(2,948)
	27,318	27,646	57,353	51,511

Imasco Limited
September 30
(Unaudited)

Consolidated Balance Sheet

1979

1978

Thousands of dollars

Current assets		
Cash and term deposits	37,820	27,603
Accounts and notes receivable	62,655	68,546
Inventories	237,461	230,485
Prepaid expenses	5,900	6,545
Total current assets	343,836	333,179
Current liabilities		
Bank and other short term loans	60,407	45,009
Accounts payable and accrued liabilities	53,291	65,731
Income, excise and other taxes	33,193	27,707
Current portion of long term debt	2,660	2,953
Total current liabilities	149,551	141,400
Working capital	194,285	191,779
Other assets		
Investments in associated companies	58,912	39,271
Other investments and receivables	26,436	18,905
Deferred charges	9,002	6,864
Fixed assets	104,454	93,874
Goodwill	38,992	40,076
Total other assets	237,796	198,990
Excess of assets over current liabilities	432,081	390,769
Other liabilities		
Long term debt	97,720	103,141
Deferred income taxes	15,151	10,976
Minority interest	704	983
Total other liabilities	113,575	115,100
Excess of assets over liabilities	318,506	275,669
Shareholders' equity		
Capital stock	78,487	78,827
Retained earnings	240,019	196,842
Total shareholders' equity	318,506	275,669

Imasco Limited
Six months, April to September
(Unaudited)

Consolidated Statement of Changes in Financial Position	1979	1978
	Thousands of dollars	
Source of funds		
Net earnings	31,400	25,933
Non-cash items	6,142	6,497
Funds provided from operations	37,542	32,430
Issuance of series "A" preference shares	—	24,674
Other investments and receivables	2,080	1,593
Sale of fixed assets	693	563
Total source of funds	40,315	59,260
Application of funds		
Purchase of subsidiaries	—	65,098
Working capital acquired	—	(5,937)
	—	59,161
Fixed assets	17,551	11,008
Dividends	10,528	7,814
Investments in associated companies	4,979	1,189
Long term debt	2,559	2,892
Other investments and receivables	2,143	1,939
Deferred charges	1,597	1,043
Redemption of series "A" preference shares	340	—
Other	220	(211)
Total application of funds	39,917	84,835
Working capital		
Increase (decrease) in working capital	398	(25,575)
Beginning of period	193,887	214,747
Adjustment of foreign exchange	—	2,607
End of period	194,285	191,779

Etat consolidé de l'évolution de la situation financière			1979	1978
			en milliers de dollars	
Provenance des fonds				
Bénéfices nets			31 400	25 933
Postes hors caisse			6 142	6 497
Fonds provenant de l'exploitation			37 542	32 430
Produit de l'émission d'actions privilégiées série A			—	24 674
Autres placements et créances			2 080	1 593
Vente d'immobilisations			693	563
Total de la provenance des fonds			40 315	59 260
Utilisation des fonds				
Achats de filiales			—	65 098
Fonds de roulement acquis			—	(5 937)
Immobilisations			17 551	11 008
Dividendes			10 528	7 814
Placements dans des compagnies associées			4 979	1 189
Dettes à long terme			2 559	2 892
Autres placements et créances			2 143	1 939
Frais reportés			1 597	1 043
Rachat d'actions privilégiées série A			340	—
Divers			220	(211)
Total de l'utilisation des fonds			39 917	84 835
Fonds de roulement				
Augmentation (diminution) du fonds de roulement			398	(25 575)
Au début de la période			193 887	214 747
Redressement du change			—	2 607
A la fin de la période			194 285	191 779

Bilan consolidé		1979	1978
en milliers de dollars			
Actif à court terme			
Encaisse et dépôts à terme	37 820	27 603	37 820
Comptes et effets à recevoir	62 655	68 546	62 655
Stocks	237 461	230 485	237 461
Frais payés d'avance	5 900	6 545	5 900
Total de l'actif à court terme	343 836	333 179	343 836
Passif à court terme			
Dettes bancaires et autres emprunts à court terme	60 407	45 009	60 407
Comptes à payer et frais courus	53 291	65 731	53 291
Impôts sur le revenu, taxes d'accise et autres	33 193	27 707	33 193
Tranche exigible de la dette à long terme	2 660	2 953	2 660
Total du passif à court terme	149 551	141 400	149 551
Fonds de roulement		194 285	191 779
Autres éléments d'actif			
Placements dans des compagnies associées	58 912	39 271	58 912
Autres placements et créances	26 436	18 905	26 436
Frais reportés	9 002	6 864	9 002
Immobilitisations	104 454	93 874	104 454
Achalandage	38 992	40 076	38 992
Total des autres éléments d'actif	237 796	198 990	237 796
Excédent de l'actif sur le passif à court terme		432 081	390 769
Autres éléments de passif			
Dettes à long terme	97 720	103 141	97 720
Impôts sur le revenu reportés	15 151	10 976	15 151
Participation minoritaire	704	983	704
Total des autres éléments de passif	113 575	115 100	113 575
Excédent de l'actif sur le passif	318 506	275 669	318 506
Avoir des actionnaires			
Capital-actions	78 487	78 827	78 487
Bénéfices non répartis	240 019	196 842	240 019
Total de l'avoir des actionnaires	318 506	275 669	318 506

Résultats d'exploitation par division				en milliers de dollars	
				en milliers de dollars	
				1979	Six mois 1978
Revenus	Imperial Tobacco	207 746	190 236	419 900	378 150
	Détail — ventes	48 624	52 130	97 158	102 931
	— redevances de concessions				
	et autres revenus	7 317	6 874	14 389	12 511
	Alimentation	28 383	50 234	56 429	94 191
	Transactions interdivisions	(7 227)	(6 483)	(13 527)	(12 766)
		284 843	292 991	574 349	575 017
Bénéfices d'exploitation	Imperial Tobacco	22 497	20 025	47 899	38 582
	Détail	4 274	5 350	8 177	9 709
	Alimentation	2 607	3 784	4 854	6 168
		29 378	29 159	60 930	54 459
	Administration générale	(2 060)	(1 513)	(3 577)	(2 948)
		27 318	27 646	57 353	51 511

Etat consolidé des bénéfices		Deuxième trimestre		Six mois	
		1979	1978	1979	1978
		en milliers de dollars		en milliers de dollars	
Revenus		284 843	292 991	574 349	575 017
Taxes de vente et d'accise		101 566	93 535	200 573	183 326
Frais d'exploitation		183 277	199 456	373 776	391 691
		155 959	171 810	316 423	340 180
Bénéfices d'exploitation		27 318	27 646	57 353	51 511
Intérêt — net		2 311	2 903	5 762	5 543
Bénéfices avant impôts sur le revenu		25 007	24 743	51 591	45 968
Impôts sur le revenu		10 713	10 680	21 807	19 825
Participation minoritaire		81	192	177	419
Quote-part des bénéfices de compagnies associées		14 213	13 871	29 607	25 724
Bénéfices nets		1 246	173	1 793	209
Bénéfices par action ordinaire:		15 459	14 044	31 400	25 933
non dilués		\$1.48	\$1.41	\$3.03	\$2.61
dilués		\$1.48	\$1.34	\$3.01	\$2.48

Etat consolidé des bénéfices non répartis

Bénéfices non répartis au début de la période	229 823	186 757	219 147	178 723
Bénéfices nets	15 459	14 044	31 400	25 933
Dividendes	(5 263)	(3 959)	(10 528)	(7 814)
Bénéfices non répartis à la fin de la période	240 019	196 842	240 019	196 842

Placements

Nos placements dans Canada Northwest Land Limited s'élevaient à 21% de l'avoir total et ceux dans Hardee's Food Systems Inc. atteignent 46%, en supposant la conversion des actions privilégiées. Ces placements sont comptabilisés à leur valeur de consolidation. Notre quote-part des bénéfices de ces deux entreprises s'est élevée à \$1 793 000 au cours du premier semestre et elle figure dans les états financiers ci-après.

Dividendes

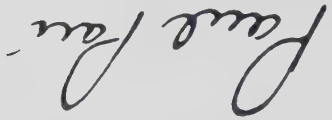
Le 1er novembre 1979, le Conseil d'administration a déclaré un dividende trimestriel de 50 cents sur les actions ordinaires, payable le 31 décembre aux actionnaires inscrits le 30 novembre 1979.

Perspectives

L'état actuel de l'économie, les restrictions sur le crédit, la montée rapide des taux d'intérêt et les craintes très répandues d'une crise économique à l'échelle de l'Amérique du Nord rendent toute prédiction commerciale difficile. Toutefois, nous attendons que les résultats du second semestre soient au moins égaux à ceux du premier.

Au nom du Conseil d'administration

Le Président du Conseil et Chef de la direction,



Paul Paré

Montréal, le 1er novembre 1979

Commerce de détail

Au cours du premier semestre, les ventes de l'ensemble du réseau de commerce de détail ont été de \$350 847 000, une augmentation de 15%. De leur côté, les bénéfices se sont chiffrés à \$8 177 000. Pour le même semestre un an plus tôt, les chiffres avaient été de \$305 789 000 et de \$9 709 000.

Pendant le deuxième trimestre, les ventes de l'ensemble du réseau ont été de \$177 510 000, une hausse de 14%, tandis que les bénéfices ont atteint \$4 274 000. Au cours de la même période l'an dernier, les ventes avaient été de \$155 144 000 et les bénéfices de \$5 350 000.

La baisse des bénéfices du commerce de détail s'explique par le marasme qui sévit actuellement dans l'ensemble du commerce de ce genre au Canada. La concurrence a obligé les détaillants à réduire leur marge bénéficiaire afin de diminuer leurs stocks et les frais d'intérêt connexes.

Le programme accéléré d'ouverture de magasins Shoppers Drug Mart, surtout en Floride, a aussi contribué à faire baisser les bénéfices. Mais cela est conforme aux projections et la rentabilité future de ce programme nous inspire confiance.

La chaîne Shoppers Drug Mart, qui détient 50% de Pharmaprix Limitée, vient de conclure avec Steinberg Inc. une entente d'achat des 50% qui restent. Pharmaprix regroupe 35 pharmacies du Québec.

Alimentation

Les ventes du premier semestre dans le secteur de l'alimentation ont été de \$56 429 000, contre \$94 191 000 l'an dernier. Les bénéfices se sont chiffrés à \$4 854 000, contre \$6 168 000 un an plus tôt.

Quant aux ventes et aux bénéfices du deuxième trimestre, ils se sont chiffrés respectivement à \$28 383 000 et \$2 607 000. Pour le même trimestre de l'exercice précédent, ils avaient été de \$50 234 000 et \$3 784 000.

La baisse des ventes et des bénéfices s'explique par l'absence dans les états de cette année des résultats de compagnies vendues. Si, aux fins de la comparaison, on excluait les résultats des compagnies en question des états de l'an dernier, on obtiendrait une augmentation des ventes de 17% pour le premier semestre et le deuxième trimestre et une hausse des bénéfices de 35% pour le semestre et de 18% pour le trimestre.

Tous les secteurs de l'alimentation progressent de façon satisfaisante et les résultats sont particulièrement bons pour la division des charcuteries Taillefer des Aliments Grissol.

Les bénéfices nets consolidés du semestre terminé le 30 septembre 1979 ont été de \$31 400 000, soit \$5 467 000 ou 21% de plus que le chiffre de \$25 933 000 enregistré lors du premier semestre de l'exercice précédent.

Pour le même semestre, les bénéfices non dilués par action ordinaire se sont chiffrés à \$3.03 tandis que les bénéfices dilués ont été de \$3.01, en regard de \$2.61 et de \$2.48 un an plus tôt.

Quant au deuxième trimestre, les bénéfices nets consolidés se sont établis à \$15 459 000, pour des bénéfices par action, dilués et non dilués, de \$1.48. Les chiffres correspondants du deuxième trimestre de l'exercice précédent avaient été les suivants: \$14 044 000 de bénéfices nets consolidés ou \$1.41 de bénéfices non dilués par action et \$1.34 de bénéfices dilués.

Comme elles ont été rachetées ou converties en juillet, les actions privilégiées série A n'ont aucun effet de dilution sur les bénéfices par action du deuxième trimestre.

Imperial Tobacco

Les ventes d'Imperial Tobacco Limited pour le semestre se sont élevées à \$419 900 000, soit une hausse de 1%. Quant aux bénéfices d'exploitation, ils ont été de \$47 899 000, ce qui marque une augmentation de \$9 317 000 ou 24% sur la période correspondante de l'exercice précédent. Au cours du premier semestre de l'exercice précédent, les ventes et les bénéfices avaient été de \$378 150 000 et \$38 582 000 respectivement.

Les ventes du deuxième trimestre ont été de \$207 746 000, pour une augmentation de 9%, tandis que les bénéfices se sont établis à \$22 497 000, soit une hausse de 12% par rapport à la période correspondante un an plus tôt, où ils avaient été de \$190 236 000 et \$20 025 000.

Par rapport au premier semestre de l'exercice précédent, Imperial Tobacco a vendu environ 9% de plus de cigarettes portant sa marque, à cause de l'accroissement du marché canadien de la cigarette obtenu par la compagnie. Pendant la même période, l'augmentation de l'ensemble de l'industrie de la cigarette n'a été que de 1%. Une partie de la récolte de tabac jaune de l'Ontario a été attaquée par une rouille appelée mildiou. Les producteurs ont ainsi perdu environ 30% de la récolte estimée au départ à 230 millions de livres. Imperial Tobacco a pris des mesures pour que la perte n'affecte pas la disponibilité de ses produits. Mais cette perte pourrait faire monter le prix du tabac en feuilles. Les exportations seront aussi réduites des 100 millions de livres prévues à 65 millions de livres.

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79/00